

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SAJ-01 IO-10 AGR-05 SP-02 AID-05 EB-07

NSC-05 CIEP-01 TRSE-00 SS-15 STR-01 OMB-01 CEA-01

CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03

LAB-04 SIL-01 L-02 H-02 PA-01 PRS-01 USIA-06 SAM-01

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R 211604Z MAR 75

FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC 8514

INFO ALL EC CAPITALS 0464

AMEMBASSY BERN

AMEMBASSY OSLO

AMEMBASSY STOCKHOLM

AMEMBASSY VIENNA

LIMITED OFFICIAL USE SECTION 1 OF 2 EC BRUSSELS 2527

E.O. 11652: N/A

TAGS: EFIN, EEC

SUBJECT: EC REACTION TO PROPOSED SWISS ENTRY INTO THE SNAKE

REFS: A. EC BRUSSELS 2391

B. BERN 1233

1. SUMMARY: EC COMMISSION AND PERMDEL FINANCIAL OFFICIALS BELIEVE THE PROPOSED ENTRY OF SWITZERLAND INTO THE SNAKE WILL STRENGTHEN EUROPEAN MONETARY STABILITY. IT WILL ALSO PROVIDE OPPORTUNITIES FOR CLOSER EC-SWISS COOPERATION. OFFICIALS HERE INDICATE THAT SWITZERLAND IS INTENT ON JOINING THE SNAKE. THEY EXPECT THE EC TO ACCEPT SWISS ENTRY, PROVIDED SATISFACTORY CONDITIONS ARE WORKED OUT, AT THE EC COUNCIL (FINANCE) MEETING ON APRIL 21. END SUMMARY.

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2. EC COMMISSION AND PERMDEL FINANCIAL OFFICIALS HAVE GIVEN

US THEIR REACTION TO THE PROPOSED ASSOCIATION OF SWITZERLAND TO THE "MINI-SNAKE". MOST OFFICIALS EXPECT THE EC CENTRAL BANKER'S COMMITTEE TO WORK OUT THE TECHNICAL DETAILS AND CONDITIONS OF SWISS ENTRY BEFORE THE EC FINANCE COUNCIL MEETING ON APRIL 21. THE COUNCIL IS EXPECTED TO GIVE ITS APPROVAL AT THAT TIME. WHILE THE SWISS CLAIM THAT THEY HAVE NOT YET DECIDED ON ENTERING THE SNAKE (SEE REFTELS), OFFICIALS HERE BELIEVE THAT THE GOS INTENDS TO BECOME AN ASSOCIATE MEMBER AS SOON AS SATISFACTORY ARRANGEMENTS CAN BE WORKED OUT.

3. ASSOCIATED MEMBERSHIP: SWITZERLAND'S ASSOCIATION WITH THE SNAKE WOULD PRESUMABLY BE SIMILAR TO THAT OF NORWAY AND SWEDEN. IT WOULD TAKE ON THE OBLIGATION OF KEEPING ITS EXCHANGE RATE WITHIN 2.25 PERCENT OF EITHER SIDE OF THE SNAKE'S CENTRAL RATE. AS AN ASSOCIATE MEMBER, SWITZERLAND WOULD NOT JOIN THE MULTILATERAL SHORT-TERM CREDIT ARRANGEMENTS THAT ARE OFFERED TO EC MEMBERS. THESE CREDITS ARE EXTENDED FOR A THREE-MONTH PERIOD AND ARE USUALLY RENEWABLE ONE TIME. INSTEAD, SWITZERLAND WOULD PROBABLY ENTER INTO BILATERAL SWAP ARRANGEMENTS WITH THE OTHER SNAKE COUNTRIES. THESE SWAPS ARE USUALLY EXTENDED FOR ONLY ONE MONTH AT A TIME.

4. EXCHANGE RATE FOR SF: THE KEY TO SWISS ENTRY WILL BE FINDING A MUTUALLY ACCEPTABLE RATE AT WHICH THE SWISS FRANC (SF) WILL ENTER THE SNAKE. COMMISSION OFFICIALS FAVOR USING THE PAST ONE MONTH AVERAGE OF FOREIGN EXCHANGE RATES. THEY BELIEVE, HOWEVER, THAT THE SF IS CURRENTLY OVERVALUED AND THIS RATE WOULD CONSEQUENTLY PLACE A HARDSHIP ON SWISS EXPORTS, ESPECIALLY WATCHES, SHOES, AND SOME AGRICULTURAL PRODUCTS. NEVERTHE LESS, THE EXISTING SNAKE MEMBERS WOULD NOT ACCEPT ANY ADJUSTMENT DOWNWARD IN THE CURRENT SF RATE. COUNTRIES SUCH AS DENMARK, WHICH ARE PRESENTLY ON THE BOTTOM OF THE SNAKE, ARE CONCERNED THAT SWISS ENTRY, EVEN AT CURRENT MARKET RATES, WILL PLACE ADDITIONAL PRESSURE ON THEIR CURRENCIES. DANISH OFFICIALS HERE TELL US THAT EVEN THOUGH THEY ARE RELUCTANT, THEY WILL NOT ATTEMPT TO BLOCK SWISS ENTRY AS LONG AS ACCEPTABLE CONDITIONS ARE WORKED OUT.

5. IMPACT ON EC NON-MEMBERS: COMMISSION OFFICIALS SPECULATE THAT IF FRANCE CONTINUES ITS RELATIVELY FAVORABLE ECONOMIC LIMITED OFFICIAL USE

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PROGRESS, IT MAY RE-ENTER THE SNAKE AT THE END OF THIS YEAR. SWISS ENTRY, HOWEVER, MAY CAUSE THE SNAKE TO FLOAT UPWARD AND CONSEQUENTLY MAKE IT MORE DIFFICULT FOR FRANCE TO RE-ENTER THE SNAKE. THE FRENCH HERE SAY THEY ARE NOT OPPOSED TO THE SWISS JOINING, BUT THEY DO WANT SATISFACTION ON CERTAIN ENTRY CONDITIONS, THE OTHER EC MEMBER STATES THAT ARE NOT MEMBERS OF THE SNAKE HAVE NOT EXPRESSED ANY SPECIAL CONCERNS. BRITISH FINANCIAL OFFICIALS HERE TELL US, FOR EXAMPLE, THAT THIS IS A

MATTER FOR THE "MINI-SNAKE" COUNTRIES TO DECIDE.

6. SPECIAL CONDITIONS: COMMISSION OFFICIALS BELIEVE THE SWISS WILL BE ASKED TO MAINTAIN THEIR EXISTING CONTROLS ON CAPITAL FLOWS, ESPECIALLY THE INTEREST CHARGES ON FOREIGN BANK DEPOSITS. COMMISSION OFFICIALS BELIEVE THERE IS NO PRACTICAL WAY OF ASSURING THAT SWISS ENTRY WOULD NOT CREATE PROBLEMS FOR EC NON-SNAKE MEMBERS WHO MIGHT WANT TO RE-ENTER. THE SNAKE'S BAN COULD BE EXPANDED TO EASE SUCH PROBLEMS BUT THESE ARE JUST PALATIVES, NOT SOLUTIONS. THE COMMISSION WOULD LIKE TO BE ABLE TO BORROW REGULARLY ON SWISS CAPITAL MARKETS.

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OFFICIALS SAY THAT SUCH AN ARRANGEMENT WOULD NOT BE A PRIOR CONDITION TO ENTRY, HOWEVER, BUT RATHER A NATURAL OUTGROWTH OF CLOSER SWISS-EC COOPERATION. THERE MIGHT ALSO BE AN UNDERSTANDING THAT SHOULD THE SF CAUSE THE SNAKE'S RATE TO FLOAT UPWARD SHARPLY THERE WOULD BE AN ESCAPE MECHANISM BY WHICH

THE SNAKE COULD FREE ITSELF OF THE SF AND VICE VERSA.

7. DM ZONE: COMMISSION OFFICIALS FAVOR BROADENING THE BLOC OF CURRENCIES WITHIN THE SNAKE BECAUSE IT ADDS TO MONETARY STABILITY. THEY ALSO NOTE THAT SWISS ENTRY STRENGTHENS THE ROLE OF STRONG CURRENCIES IN EUROPE, ESPECIALLY THE DM, WHICH DOMINATES THIS HARD CURRENCY ZONE. THERE ARE RISKS FOR THE DM, HOWEVER, BECAUSE THE SWISS RECENTLY HAVE OFTEN HELPED ABSORB LARGE CAPITAL MOVEMENTS OUT OF THE DOLLAR. ITS ENTRY INTO THE SNAKE MAY CAUSE FUTURE SUCH MOVEMENTS TO MOVE MAINLY INTO DMS. NEVERTHELESS, FRG OFFICIALS HERE STRONGLY FAVOR SWISS LIMITED OFFICIAL USE

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ENTRY. GREENWALD

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